

Free trade talks to push Africa into future

In an important process which started three years ago, the first round of negotiations to establish a free trade area (FTA) covering 27 countries in Southern and East Africa will kick off on Thursday, 8 December 2011, in Nairobi. This promises to be an important instrument for the future of trade and industrialisation in Africa.

The three trade blocs involved include: the Southern African Development Community (SADC), the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), together decided in October 2008 in Kampala to move towards a free trade agreement.

The intention is to boost intra-regional trade because the market will be much bigger, there will be more investment flows, enhanced competitiveness and the development of cross-regional infrastructure.

Locally manufactured goods

Industrialisation, making goods to sell instead of selling primary products, is a possible and also necessary spin-off. Competition with older established and also bigger emerging economies might be a stumbling block initially, but the new market may make it possible for locally manufactured goods to compete with those imported from outside the FTA.

Close to 600 million people live in the FTA with a gross domestic product (GDP) of US\$1 trillion and suddenly we are boxing in the same weight division as China, India, Russia, Brazil, the US and the EU.

The continent is already being touted as the next economic frontier, as the place to be because the future is here.

Figures according to Department of Trade and Industry

- Africa's combined consumer spending in 2008 was \$860 billion and will be \$1.4 trillion in 2020
- In 2040 there will be 1.1 billion Africans of working age with 43% now under 15
- Urbanisation enhances growth - Africa already has 52 cities with more than a million inhabitants, more than Europe. In 2030, 50% will be living in cities.
- Africa's returns on FDI are the highest in the world.

South Africa to benefit

South Africa, with its advanced and sophisticated economy, is best suited to take advantage offered by such a market. According to the World Economic Forum (WEF), South Africa is number one in the world for the strength of auditing and reporting standards and for the regulation of securities exchanges. The soundness of banks, rated second in the world is

also an important asset.

Add in the certainty offered by the recently announced National Development Plan, which sets out the country's path until 2030, and it is clear that South Africa's competitiveness will be enhanced.

With the establishment of the FTA, which will be rocky at the beginning, South Africa will in the future have a market which will be twelve times bigger than the fifty million customers it now has.

Minister of Trade and Industries pointed out that negotiations over industrial policy could be tough. South Africa has just set out to implement its Industrial Policy Action Plan (IPAP) and discussions around the trade in manufactured goods will be of particular concern. But South Africa does have an advantage. Unlike exports to the rest of the world, a high percentage of exports into Africa are already made up of value-added products.

Restrictions

Other problems would be the levels of protectionism between African countries, restrictive trade permit needs and economic disparities. Additionally, the fact that three existing trade blocs aim to merge into one is a stumbling block as they are at different levels of integration with different rules and regulations. All of these issues will be tackled at the negotiation in Nigeria this week.

The economic growth in all participating countries will be boosted by increased intra-regional trade. For Africa as a whole at the moment, this stands at only 12% of all cross-border trade whereas in Asia the figure is rising toward 50% and in the European Union 80%.

The FTA would also be an important building block towards achieving the vision of the founding fathers of the Organisation of African Unity in 1963, a continent-wide African Economic Union. The talks may be the first concrete sign of Africa rising to take its rightful place in the world.

For more, visit: <https://www.bizcommunity.com>